

**CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE**  
**Project Staff Report**  
**Tax-Exempt Bond Project**  
**August 11, 2021**

Clearlake Apartments, located at 7145 Old Highway 53 in Clearlake, requested and is being recommended for a reservation of \$457,051 in annual federal tax credits to finance acquisition and rehabilitation of 71 units of housing serving tenants with rents affordable to households earning 30-60% of area median income (AMI). The project will be developed by Highland Property Development and will be located in Senate District 2 and Assembly District 4.

Clearlake Apartments is a re-syndication of an existing Low Income Housing Tax Credit (LIHTC) project, Clearlake Apartments (CA-04-922). See **Resyndication and Resyndication Transfer Event** below for additional information. The project will be receiving rental assistance in the form of a HUD Section 8 Project-based Contract.

**Project Number** CA-21-601

**Project Name** Clearlake Apartments  
**Site Address:** 7145 Old Highway 53  
Clearlake CA, 95422 County: Lake  
**Census Tract:** 8.01

<b>Tax Credit Amounts</b>	<b>Federal/Annual</b>	<b>State/Total</b>
Requested:	\$457,051	\$0
Recommended:	\$457,051	\$0

**Applicant Information**

**Applicant:** Highland Property Development  
**Contact:** Kristoffer J. Kaufmann  
**Address:** 701 S. Myrtle Avenue  
Monrovia, CA 96021  
**Phone:** (626) 698-6361  
**Email:** k.kaufmann@highlandcompanies.com

<b>General Partner(s) or Principal Owner(s):</b>	Hearthstone CA Properties II, LLC
<b>General Partner Type:</b>	Joint Venture
<b>Parent Company(ies):</b>	Hearthstone Housing Foundation
<b>Developer:</b>	Highland Property Development
<b>Bond Issuer:</b>	CSCDA
<b>Investor/Consultant:</b>	Boston Financial Investment Mgmt.
<b>Management Agent:</b>	FPI Management

**Project Information**

Construction Type: Acquisition & Rehabilitation  
 Total # Residential Buildings: 5  
 Total # of Units: 72  
 No. / % of Low Income Units: 71 100.00%  
 Federal Set-Aside Elected: 40%/60%  
 Federal Subsidy: Tax-Exempt / USDA RHS 515 and 538 / HUD Section 8 Project-based Contract (71 units - 100%)

**Information**

Housing Type: Non-Targeted  
 Geographic Area: Rural  
 TCAC Project Analyst: Nick White

**55-Year Use / Affordability**

<u>Aggregate Targeting Number of Units</u>	<u>Percentage of Affordable Units</u>
30% AMI: 8	11%
50% AMI: 8	11%
60% AMI: 55	77%

**Unit Mix**

32 1-Bedroom Units
36 2-Bedroom Units
<u>4 3-Bedroom Units</u>
72 Total Units

<u>Unit Type &amp; Number</u>	<u>2021 Rents Targeted % of Area Median Income</u>	<u>Proposed Rent (including utilities)</u>
3 1 Bedroom	30%	\$392
3 1 Bedroom	50%	\$653
26 1 Bedroom	60%	\$784
4 2 Bedrooms	30%	\$471
4 2 Bedrooms	50%	\$785
28 2 Bedrooms	60%	\$942
1 3 Bedrooms	30%	\$543
1 3 Bedrooms	50%	\$906
1 3 Bedrooms	60%	\$1,087
1 3 Bedrooms	Manager's Unit	\$0

**Project Cost Summary at Application**

Land and Acquisition	\$3,000,000
Construction Costs	\$0
Rehabilitation Costs	\$4,993,920
Construction Hard Cost Contingency	\$432,000
Soft Cost Contingency	\$0
Relocation	\$50,000
Architectural/Engineering	\$76,000
Const. Interest, Perm. Financing	\$338,567
Legal Fees	\$119,500
Reserves	\$354,400
Other Costs	\$148,446
Developer Fee	\$1,012,777
Commercial Costs	\$0
<b>Total</b>	<b>\$10,525,610</b>

**Residential**

Construction Cost Per Square Foot:	\$98
Per Unit Cost:	\$146,189
True Cash Per Unit Cost*:	\$132,123

**Construction Financing**

Source	Amount
JP Morgan Chase	\$5,185,000
USDA 515	\$1,660,000
Net Operating Income	\$127,033
Deferred Developer Fee	\$1,012,777
Tax Credit Equity	\$2,540,800

**Permanent Financing**

Source	Amount
Bonneville Mortgage Company	\$4,500,000
USDA 515	\$1,660,000
Net Operating Income	\$127,033
Deferred Developer Fee	\$308,332
Tax Credit Equity	\$3,930,245
<b>TOTAL</b>	<b>\$10,525,610</b>

\*Less Fee Waivers, Seller Carryback Loans, and Deferred Developer Fee

**Determination of Credit Amount(s)**

Requested Eligible Basis (Rehabilitation):	\$6,838,880
130% High Cost Adjustment:	Yes
Requested Eligible Basis (Acquisition):	\$2,535,750
Applicable Fraction:	100.00%
Qualified Basis (Rehabilitation):	\$8,890,544
Qualified Basis (Acquisition):	\$2,535,750
Applicable Rate:	4.00%
Maximum Annual Federal Credit, Rehabilitation:	\$355,621
Maximum Annual Federal Credit, Acquisition:	\$101,430
Total Maximum Annual Federal Credit:	\$457,051
Approved Developer Fee in Project Cost:	\$1,012,777
Approved Developer Fee in Eligible Basis:	\$1,012,777
Investor/Consultant:	Boston Financial Investment Mgmt.
Federal Tax Credit Factor:	\$0.85991

Except as allowed for projects basing cost on assumed third party debt, the “as if vacant” land value and the existing improvement value established at application for all projects, as well as the eligible basis amount derived from those values, shall not increase during all subsequent reviews including the placed in service review, for the purpose of determining the final award of Tax Credits. The sum of the third party debt encumbering the property may increase during subsequent reviews to reflect the actual amount.

**Significant Information / Additional Conditions:** None

**Resyndication and Resyndication Transfer Event**

Prior to closing, the applicant or its assignee shall obtain TCAC's consent to assign and assume the existing Regulatory Agreement (CA-04-992). To be eligible for a new award of tax credits, the owner must provide documentation with the Form 8609 request (the placed in service submission) that the acquisition date and the placed in service date both occurred after the existing federal 15 year compliance period was completed. For resyndications that were originally rehabilitation and acquisition, the resyndication acquisition date cannot occur before the last rehabilitation credit year of the original credit period.

As required by the IRS, the newly resyndicated project will continue to use the originally assigned Building Identification Numbers (BINs).

The newly resyndicated project shall continue to meet the rents and income targeting levels in the existing regulatory agreement(s) and any deeper targeting levels in the new regulatory agreement(s) for the duration of the new regulatory agreement(s). Existing households determined to be income-qualified for purposes of IRC §42 credit during the 15-year compliance period are concurrently income-qualified households for purposes of the extended use agreement. As a result, any household determined to be income qualified at the time of move-in under the existing regulatory agreement (CA-04-922) is a qualified low-income household for the subsequent allocation (existing household eligibility is “grandfathered”).

The project is a resyndication where the existing regulatory agreement requires service amenities. The project shall provide a similar or greater level of services for a period of at least 15 years under the new regulatory agreement. The project is deemed to have met this requirement based on TCAC staff’s review of the commitment in the application. The services documented in the placed in service package will be reviewed by TCAC staff for compliance with this requirement at the time of the placed in service submission.

The project is a resyndication occurring concurrently with a Transfer Event without distribution of Net Project Equity, and thus is waived from the requirements under TCAC Regulation Section 10320(b)(4)(B).

**Standard Conditions**

If applicant is receiving tax-exempt bond financing from other than CalHFA, the applicant shall apply for a bond allocation from the California Debt Limit Allocation Committee’s next scheduled meeting, if not previously granted an allocation; shall have received an allocation from CDLAC; and, shall issue bonds within time limits specified by CDLAC.

The applicant anticipates financing more than 50% of the project aggregate basis with tax-exempt bond proceeds as calculated by the project tax professional. Therefore, the federal credit reserved for this project will not count against the annual ceiling.

State tax credit recipients are limited to cash distributions from project operations pursuant to California Revenue and Taxation Code Section 12206(d). By accepting the tax credit reservation, the applicant/owner is agreeing to comply with the statutory limitations and requirements.

TCAC makes the preliminary reservation only for the project specified above in the form presented, and involving the parties referred to in the application. No changes in the development team or the project as presented will be permitted without the express approval of TCAC.

The applicant must pay TCAC a reservation fee calculated in accordance with regulation. Additionally, TCAC requires the project owner to pay a monitoring fee before issuance of tax forms.

As project costs are preliminary estimates only, staff recommends that a reservation be made in the amount of federal credit and state credit shown above on condition that the final project costs be supported by itemized lender approved costs and certified costs after the buildings are placed in service.

All unexpended funds in reserve accounts established for the project must remain with the project to be used for the benefit of the property and/or its residents, except for the portion of any accounts funded with deferred developer fees.

All fees charged to the project must be within TCAC limitations. Fees in excess of these limitations will not be considered when determining the amount of credit when the project is placed-in-service.

If the applicant has requested the use of a CUAC utility allowance, TCAC's Compliance staff will review the CUAC documentation for this project prior to placed in service. Until written approval is received from TCAC, this project is not eligible to use a utility allowance based on the CUAC.

The applicant/owner shall be subject to underwriting criteria set forth in Section 10327 of the regulations through the final feasibility analysis performed by TCAC at placed-in-service.

Credit awards are contingent upon applicant's acceptance of any revised total project cost, qualified basis and tax credit amount determined by TCAC in its final feasibility analysis.

#### **CDLAC Additional Conditions**

The applicant/owner is required to comply with the CDLAC Resolution. At the time of the TCAC placed in service review, TCAC staff will verify that the project is in compliance with all applicable items of CDLAC Resolution Exhibit A.